

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 IO-13 PRS-01 /095 W
-----086967 220358Z /13

R 211900Z OCT 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC PRIORITY 7967
INFO AMEMBASSY PARIS PRIORITY
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY BONN
AMEMBASSY THE HAGUE
AMEMBASSY MOSCOW
AMEMBASSY COPENHAGEN

C O N F I D E N T I A L ROME 17297

PARIS ALSO USOECD: BRUSSELS ALSO USEEC

E.O. 11652: GDS
TAGS: EFIN, IT, FR, UR
SUBJECT: ITALIAN AND FRENCH CREDIT AGREEMENT WITH USSR

REF: (A) ROME 16496 (NOTAL) (B) STATE 250807

1. AS INSTRUCTEDREFTTEL, THE AMBASSADOR CALLED ON FOREIGN
TRADE MINISTER OSSOLA OCTOBER 21 TO DISCUSS ISSUE OF CREDITS
TO SOVIET UNION. OSSOLA OPENED CONVERSATION BY REPORTING ON
REACTION OF EC MEMBER COUNTRIES TO ITALIAN NOTIFICATION OF
EXTENSION OF CREDIT AGREEMENT AT 7.55 PERCENT INTERST
(PARA 3 REF A). FRANCE RESPONDED WITH NO OBJECTION: UK, FRG
AND EITHER BELGIUM OR NETHERLANDS (HE COULD NOT REMEMBER WHICH)
REQUESTED THAT GOI RECONSIDER: OTHER MEMBERS DID NOT RESPOND.
BRITISH AMBASSADOR CALLED ON OSSOLA PREVIOUS DAY TO EXPRESS
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HMG UNHAPPINESS OVER GOI DECISION AND ALSO DESCRIBED
HEALEY LETTER TO BARRE (PARIS 30064).

2. OSSOLA WENT ON TO STATE THAT SOVIETS HAD BEEN
VERY CLEVER IN CONCLUDING CONTRACT IN PAST FEW DAYS
FOR SALE OF NATURAL GAS TO ITALY AT PRICE "APPRECIABLY",
BELOW MARKET RATE, THUS PUTTING PRESSURE ON GOI TO

MAKE CONCESSION ON INTEREST RATE IN CREDIT AGREEMENT. INDEED, HE SAID, SOVIETS HAD FLATLY STATED THAT ITALY COULD MAKE UP THE LOSS ON LOWER INTEREST RATE THROUGH INCREASE IN PRICE OF GOODS AND EQUIPMENT SOLD TO SOVIET UNION.

3. AMBASSADOR PICKED UP OSSOLA'S COMMENT ON DEMARCHE BY BRITISH AMBASSADOR AND STATED THAT REPORT OF HIS OCTOBER 7 CONVERSATION (REF A) HAD MET IN WASHINGTON, AS HE HAD EXPECTED, WITH SURPRISE AND UNHAPPINESS. FOR THAT REASON HE HAD BEEN INSTRUCTED TO EXPRESS TO OSSOLA U.S. DISAPPOINTMENT WITH ITALIAN DECISION TO BREACH MINIMUM INTEREST RATE. THE AMBASSADOR EMPHASIZED POLITICAL AND ECONOMIC CONSEQUENCES OF THAT ACTION, PARTICULARLY WITH REGARD TO ADVANTAGES PROVIDED TO SOVIETS IN BUILDING UP THEIR ECONOMY WITH SUBSIDIZED CREDIT FROM THE WEST. FURTHER CONSIDERATION AMBASSADOR SOUGHT TO IMPRESS UPON OSSOLA WAS NEGATIVE REACTION THAT COULD BE EXPECTED BY U.S. CONGRESS AND PUBLIC TO ACTION BY ITALY--A COUNTRY WE HAVE SOUGHT TO ASSIST BY FINANCIAL AND OTHER MEANS--(A) BREAKING CONSENSUS TO WHICH LEADING INDUSTRIALIZED COUNTRIES HAD AGREED AND (B) PROVIDING CREDITS TO COUNTRY NOT IN ECONOMIC NEED DESPITE ITS OWN STATUS AS RECIPIENT OF INTERNATIONAL CREDITS. FINALLY, THE AMBASSADOR STATED THAT ITALIAN ACTION RAISED QUESTION ABOUT THE VIABILITY OF THE CONSENSUS AND FURTHER

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EFFOR TO SUBSTANTIALLY IMPROVE IT. IN MAKING HIS DEMARCHE, THE AMBASSADOR NOTED THAT OUR DISAPPOINTMENT RELATED TO FRANCE AS WELL AS ITALY, AND THAT OUR AMBASSADOR IN PARIS HAD BEEN INSTRUCTED TO MAKE SIMILAR REPRESENTATIONS.

4. OSSOLA THEN RESPONDED THAT IN INFORMAL CONSULTATIONS WITH EC PARTNERS IN BRUSSELS, IT HAD BEEN SUGGESTED THAT GOI REQUEST DEROGATION FROM THE CONSENSUS. OSSOLA DECLINED TO DO SO, HOWEVER, ON GROUNDS THAT PREVIOUS AGREEMENT WITH SOVIET UNION PROVIDED THAT CREDIT WOULD BE EXTENDED FOR CONTRACTS THROUGH END OF 1979 AND THAT IF ORIGINAL CREDIT WERE NOT SUFFICIENT, FURTHER CREDITS COULD BE EXTENDED. THEREFORE, OSSOLA CONCLUDED, ITALY HAS NOT BREACHED CONSENSUS AND DOES NOT NEED DEROGATION.

5. DESPITE SEEMING CONTRADICTION WITH ITALIAN ACTION, OSSOLA AGREED ON NEED TO STRENGTHEN CONSENSUS. FOR THAT PURPOSE HE SUGGESTED TWO WAYS: (A) BY MAKING CONSENSUS INTEREST RATE COMPULSORY FOR ALL TRANSACTIONS--NOT SOLELY FOR OFFICIALLY SUPPORTED TRANSACTIONS AS AT PRESENT: AND (B) BY INCLUDING SOVIET UNION AS A PARTY TO CONSENSUS, SUBJECT WHICH COULD BE RAISED AT DISCUSSIONS NEXT YEAR

BETWEEN EC COMMISSIN AND COMECON.

6. FINALLY, OSSOLA REPORTED DIFFICULT POSITION
HE WOULD BE PLACED IN IF HE HAD TO RESPOND TO CRITICISM
OF ITALIAN BUSINESS THAT GOI WULD OT EXTEND CREDIT OVER
AN ISSUE OF 0.2 PERCENT, EVEN THOUGH OTHER COUNTRIES HAVE
DONE THE SAME. HE WONDERED HOW HE CULD DEFEND SUCH
A DECISION POLITICALLY IN FACE OF HIGH LEVEL OF UNEMPLOY-
MENT. OLLOLA CONCLUDED THAT "REAL SUBSIDY" DOES NOT EXIST,
OR AT LEAST IS DIMINISHED, IN THAT (A) LOWER NATURAL GAS
PRICE FROM SOVIET UNION MORE THAN OFFSETS 0.2 PERCENT
DIFFERENCE IN INTEREST RATE, AND (B) CREDIT EXPRESSED
AND REIMBURSABLE IN DOLLARS SO THAT IN EVENT OF DEPRECIA-
TIONOF LIRE OVER LIFE OF CREDIT ITALY WILL NOT SUFFER
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FOREIGN EXCHANGE LOSS.

7. OASSADOR DECLINED TO ENTER INTO POINT-BY-POINT
DEBATE WITH OSSOLA, BUT STRESSED THAT, PUTTING ASIDE ARGUMENTS
OVER DETAILS, ITALY HAD AT MINIMUM CLEARLY VIOLATED
SPIRIT OF CONSENSUS AND USG REGRETTED THAT FACT.
AMBASSADOR THEN ASKED WHAT ITALY WOULD DO IFSFRANCE RE-
CONSIDERED ITS DECISION. OSSOLA, WHO CLEARLY HAD NOT
CONSIDERED THAT EVENTUALITY, REMARKED" I WOULD HAVE TO THINK

AGAIN. OSSOLA ASSERTED THAT FRENCH WULD MEET SOVIET
BEFORE NOVEMBER 20 (DATE OF HIS TRIP TO MOSCOW), AND THUS
GOI WWOULD WAIT TO SEE WHAT ACTION FRANCE TOOK.
GARDNER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CREDIT, TRADE AGREEMENTS
Control Number: n/a
Copy: SINGLE
Sent Date: 21-Oct-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ROME17297
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770388-0964
Format: TEL
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771033/aaaabbwl.tel
Line Count: 150
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ffb09c29-c288-dd11-92da-001cc4696bcc
Office: ACTION TRSE
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 ROME 16496, 77 STATE 250807
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 15-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 829933
Secure: OPEN
Status: NATIVE
Subject: ITALIAN AND FRENCH CREDIT AGREEMENT WITH USSR
TAGS: EFIN, IT, FR, UR
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/ffb09c29-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009